

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name PENTWATER TOWNSHIP	County OCEANA
Fiscal Year End 03/31/2006	Opinion Date 07/11/2006	Date Audit Report Submitted to State 08/07/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

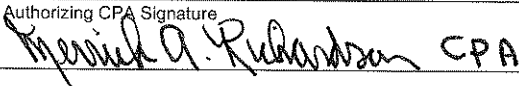
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, PC		Telephone Number 517/332/1900		
Street Address 1000 COOLIDGE ROAD		City EAST LANSING	State MI	Zip 48823
Authorizing CPA Signature  CPA		Printed Name MERRICK A. RICHARDSON		License Number 5710

TOWNSHIP OF PENTWATER, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006
AND
INDEPENDENT AUDITORS' REPORT



Layton & Richardson, P.C.
Certified Public Accountants

CONTENTS

	FINANCIAL STATEMENTS PAGE	SUPPLEMENTAL MATERIAL PAGE
INDEPENDENT AUDITORS' REPORT	1-2	
LIST OF PRINCIPAL INDIVIDUALS		3
MANAGEMENT DISCUSSION AND ANALYSIS		5-7
BASIC FINANCIAL STATEMENTS		
Statement of Net Assets and Governmental Funds Balance Sheet	9	
Statement of Revenues, Expenditures and Changes in Fund Balance/Net Assets – Governmental Funds	11	
Balance Sheet – Governmental Funds	12-13	
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	16-17	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds to the Statement of Activities – Governmental Funds	19	
Balance Sheet – Fiduciary Funds	21	
Notes to Financial Statements	23-31	
INDIVIDUAL FUND FINANCIAL STATEMENTS		
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	33-36	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Cemetery Fund	37	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Library Fund	39	
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	41-42	
LETTER OF COMMENTS AND RECOMMENDATIONS		43-45



Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Pentwater Township Board
Township of Pentwater
Pentwater, Michigan

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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Pentwater, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Township of Pentwater, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Pentwater, Michigan as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2006, on our consideration of the Township of Pentwater, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 5 through 7 and 33 through 39 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Layton & Richardson PC

Certified Public Accountants

East Lansing, Michigan
July 11, 2006

TOWNSHIP OF PENTWATER
TOWNSHIP BOARD
LIST OF PRINCIPAL INDIVIDUALS

ELECTED OFFICIAL	POSITION
Charles Smith	Supervisor
Barbara Burke	Clerk
Janice Siska	Treasurer
Terry Cluchey	Trustee
Mike Flynn	Trustee

Township of Pentwater

Management's Discussion and Analysis

This discussion and analysis of the Township of Pentwater, Michigan's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006. It should be read in conjunction with the Township's financial statements.

Financial Highlights

The Township remains in a strong financial position. Net Assets at March 31, 2006 are \$1,353,598, an increase of \$58,472 over the prior year.

Overview of Financial Statements

This annual report consists of three parts: management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view. They tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant fund, the General Fund. The fiduciary fund statement provides financial information about activity for which the Township acts solely as an agent for the benefit of those outside of government.

Township of Pentwater as a Whole

The following table shows, in a condensed format, the net assets of the governmental activities as of March 31, 2006.

	Governmental Activities MARCH 31,	
	2006	2005
Assets		
Current assets	\$ 743,130	\$ 732,477
Noncurrent assets	<u>644,325</u>	<u>587,938</u>
Total assets	1,387,455	1,320,415
Liabilities		
Current liabilities	24,535	16,232
Long-term liabilities	<u>9,322</u>	<u>9,057</u>
Total liabilities	33,857	25,289
Net Assets		
Invested in capital assets, net of related debt	644,325	587,938
Restricted	663	1,894
Unrestricted	<u>708,610</u>	<u>705,294</u>
Total net assets	<u>\$1,353,598</u>	<u>\$1,295,126</u>

Township of Pentwater

Management's Discussion and Analysis

The Township combined net assets increased 4.52% from a year ago, increasing \$58,472, from \$1,295,126. Unrestricted net assets are the portion of net assets that can be used to finance day-to-day operations. At March 31, 2006, \$708,610 of the Township's net assets is unrestricted.

The following table shows the changes of the net assets of the governmental activities during the year ended March 31, 2006.

	FOR THE YEAR ENDED MARCH 31,	
	2006	2005
Revenue		
Program revenue		
Operating grants	\$ 43,150	\$ 40,223
Private contributions	3,807	12,060
Charges for services	27,283	61,205
Sales	5,470	2,449
Fees and fines	28,185	27,381
General revenue		
Property taxes	389,688	337,947
Interest	17,303	9,064
Other	<u>2,558</u>	<u>2,775</u>
Total revenue	517,444	493,104
Program Expenses		
Legislative	2,907	2,383
General government	272,636	269,962
Public safety	10,764	12,176
Public works	26,000	19,949
Health and welfare	4,145	4,600
Recreation and culture	<u>142,520</u>	<u>138,004</u>
Total program expenses	<u>458,972</u>	<u>447,074</u>
Change in Net Assets	<u>\$ 58,472</u>	<u>\$ 46,030</u>

Governmental Activities

The Township's total governmental revenues were \$517,444. The largest revenue item is property taxes, representing 75.3% of the revenue. Charges for services represent 5.3%, operating grants comprise 8.3%, fees and fines are 5.4%, with all other revenues making up the remaining 5.7%. Total revenues increased approximately \$24,300 from the prior year. General government expenses account for 59.4% of total program expenses. Recreation and culture comprise 31.0%, with all other programs making up the remaining 9.6% of total expenses.

The General Fund

The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual, found on page 33 provides detail information about the most significant fund, not the Township as a whole. The General Fund pays for the Township's general governmental services. The most significant costs relate to general government services, accounting for 84.6% of the total expenditures of the General Fund.

Township of Pentwater

Management's Discussion and Analysis

General Fund Budgetary Highlights

Only minor amendments were made to the budget over the course of the year.

Capital Assets

As of March 31, 2006, the Township had \$947,284 invested in capital assets. Capital assets of the Township include the Township Hall and the improvements completed in the prior fiscal year, office, computer and cemetery maintenance equipment, and the Township Library collections available to the public.

Economic Factors and Next Year's Budgets and Rates

It is expected that the Township's property tax millages will be the same next year.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers and customers with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the office.

TOWNSHIP OF PENTWATER
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2006

	GOVERNMENTAL FUNDS	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
Cash and cash equivalents	\$ 254,612	\$	\$ 254,612
Investments	219,195		219,195
Accounts receivable	219		219
Due from county/city	22,513		22,513
Due from other funds	246,591		246,591
Capital assets		644,325	644,325
TOTAL ASSETS	<u>\$ 743,130</u>	<u>\$ 644,325</u>	<u>\$ 1,387,455</u>
 LIABILITIES AND FUND BALANCE/NET ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 18,823	\$	\$ 18,823
Accrued payroll taxes	5,712		5,712
Noncurrent liabilities			
Accrued sick pay		9,322	9,322
TOTAL LIABILITIES	<u>24,535</u>	<u>9,322</u>	<u>33,857</u>
 FUND BALANCE/NET ASSETS			
Invested in capital assets, net of related debt		644,325	644,325
Restricted for library books	663		663
Unrestricted	717,932	(9,322)	708,610
TOTAL FUND BALANCE/NET ASSETS	<u>718,595</u>	<u>635,003</u>	<u>1,353,598</u>
 TOTAL LIABILITIES AND FUND BALANCE/NET ASSETS	<u>\$ 743,130</u>	<u>\$ 644,325</u>	<u>\$ 1,387,455</u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE/NET ASSETS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2006

	GOVERNMENTAL FUNDS	ADJUSTMENTS	STATEMENT OF ACTIVITIES
EXPENDITURES/EXPENSES			
Legislative	\$ 2,907	\$	\$ 2,907
General government	340,821	(68,185)	272,636
Public safety	10,764		10,764
Public works	26,000		26,000
Health and welfare	4,145		4,145
Recreation and culture	130,457	12,063	142,520
	<u>515,094</u>	<u>(56,122)</u>	<u>458,972</u>
PROGRAM REVENUES			
Operating grants	43,150		43,150
Private contributions	3,807		3,807
Charges for services	27,283		27,283
Sales	5,470		5,470
Fees and fines	28,185		28,185
	<u>107,895</u>		<u>107,895</u>
Net program expense	<u>407,199</u>	<u>56,122</u>	<u>351,077</u>
GENERAL REVENUES			
Property taxes	389,688		389,688
Interest	17,303		17,303
Other	2,558		2,558
	<u>409,549</u>		<u>409,549</u>
CHANGE IN FUND BALANCE/NET ASSETS	2,350	56,122	58,472
FUND BALANCE/NET ASSETS, APRIL 1	<u>716,245</u>	<u>578,881</u>	<u>1,295,126</u>
FUND BALANCE/NET ASSETS, MARCH 31	<u><u>\$ 718,595</u></u>	<u><u>\$ 635,003</u></u>	<u><u>\$ 1,353,598</u></u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

MARCH 31, 2006

	GENERAL	CEMETERY
ASSETS		
Cash and cash equivalents	\$ 62,180	\$ 30,977
Investments	72,928	
Accounts receivable		
Due from county/city	12,230	2,852
Due from other funds	199,114	47,477
TOTAL ASSETS	<u>\$ 346,452</u>	<u>\$ 81,306</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 15,824	\$
Accrued payroll taxes	2,372	172
TOTAL LIABILITIES	<u>18,196</u>	<u>172</u>
FUND BALANCE		
Restricted for library books		
Unrestricted, reserved for library expansion		
Unrestricted, unreserved	328,256	81,134
TOTAL FUND BALANCE	<u>328,256</u>	<u>81,134</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 346,452</u>	<u>\$ 81,306</u>

See accompanying notes to financial statements.

LIBRARY	CAPITAL	TOTAL GOVERNMENTAL FUNDS
\$ 128,401	\$ 33,054	\$ 254,612
219	146,267	219,195
7,431		219
		22,513
		246,591
<u>\$ 136,051</u>	<u>\$ 179,321</u>	<u>\$ 743,130</u>
\$ 2,999	\$	\$ 18,823
3,168		5,712
<u>6,167</u>		<u>24,535</u>
663		663
	179,321	179,321
<u>129,221</u>		<u>538,611</u>
<u>129,884</u>	<u>179,321</u>	<u>718,595</u>
<u>\$ 136,051</u>	<u>\$ 179,321</u>	<u>\$ 743,130</u>

TOWNSHIP OF PENTWATER
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
MARCH 31, 2006

Total fund balances - governmental funds \$ 718,595

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported
as assets in governmental funds:

Land improvements	\$ 143,311	
Building and improvements	374,637	
Office equipment	125,430	
Software and computers	80,265	
Furniture and fixtures	70,569	
Maintenance equipment	24,372	
Library collections	119,216	
Construction in progress	9,484	
Accumulated depreciation	<u>(302,959)</u>	644,325

Long-term liabilities are not due and payable
in the current period and therefore are not
reported as liabilities in the funds. Long-term
liabilities at year-end consist of:

Compensated absences	<u>(9,322)</u>
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Total net assets - governmental activities	\$ <u><u>1,353,598</u></u>
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See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2006

	GENERAL	CEMETERY
REVENUES		
Taxes	\$ 209,496	\$ 50,355
State grants	39,864	
Private contributions		
Charges for services	26,056	1,227
Sales		5,470
Fees and fines	8,461	
Interest	8,411	1,214
Other	2,558	
TOTAL REVENUES	<u>294,846</u>	<u>58,266</u>
EXPENDITURES		
Legislative	2,907	
General government	241,243	99,578
Public safety	10,764	
Public works	26,000	
Health and welfare	4,145	
Recreation and culture		
TOTAL EXPENDITURES	<u>285,059</u>	<u>99,578</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	<u>9,787</u>	<u>(41,312)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in		
Transfers out		
TOTAL OTHER FINANCING SOURCES (USES)	<u> </u>	<u> </u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	9,787	(41,312)
FUND BALANCE, APRIL 1	<u>318,469</u>	<u>122,446</u>
FUND BALANCE, MARCH 31	<u>\$ 328,256</u>	<u>\$ 81,134</u>

See accompanying notes to financial statements.

LIBRARY	CAPITAL	TOTAL GOVERNMENTAL FUNDS
\$ 129,837	\$	\$ 389,688
3,286		43,150
1,149	2,658	3,807
		27,283
19,724		5,470
2,442	5,236	28,185
<u>156,438</u>	<u>7,894</u>	<u>17,303</u>
		2,558
		<u>517,444</u>
		2,907
		340,821
		10,764
		26,000
		4,145
<u>130,457</u>		<u>130,457</u>
<u>130,457</u>		<u>515,094</u>
<u>25,981</u>	<u>7,894</u>	<u>2,350</u>
<u>(15,000)</u>	15,000	15,000
<u>(15,000)</u>	<u>15,000</u>	<u>(15,000)</u>
10,981	22,894	2,350
<u>118,903</u>	<u>156,427</u>	<u>716,245</u>
\$ <u><u>129,884</u></u>	\$ <u><u>179,321</u></u>	\$ <u><u>718,595</u></u>

TOWNSHIP OF PENTWATER
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2006

Net change in fund balances - total governmental funds	\$ 2,350
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Expenditures for capital assets	121,293
Less: current year depreciation	(63,439)
Loss on current year capital asset disposals	(1,467)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in long-term compensated absences	<u>(265)</u>
Change in net assets of governmental activities	\$ <u><u>58,472</u></u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
BALANCE SHEET
FIDUCIARY FUNDS
MARCH 31, 2006

	TAX ACCOUNT
ASSETS	
Cash	\$ 246,574
Accounts receivable	17
TOTAL ASSETS	<u>\$ 246,591</u>
LIABILITIES	
Due to other funds	<u>\$ 246,591</u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township operates under an elected Township Board and provides services to its more than 1,500 residents in many areas including community enrichment and development.

The accounting policies of Pentwater Township conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

All funds and account groups under direct control of the Township are included in this report. These funds and account groups are those which meet the criteria established by Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity, and Statement on Michigan Governmental Accounting and Auditing No. 5.

The criteria established by GASB for determining which of the Township's various organizations and activities are to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the Township.

Blended Component Units

The Library Fund accounts for the financing and operating of the Pentwater Township Library. The Library Fund is reported as a special revenue fund.

The Cemetery Fund accounts for the financing and operating of the Pentwater Township Cemetery. All financial decisions concerning the Cemetery Fund are approved by the Township. The Cemetery Fund is reported as a special revenue fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statements of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government of the Township of Pentwater and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for services.

NOTE 1:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Government-Wide and Fund Financial Statements - Concluded

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the fiduciary fund financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township of Pentwater.

The Township of Pentwater reports the following major governmental funds:

The General Fund is used to account for all financial transactions, except those required to be accounted for in another fund. The fund includes the general operating expenditures of the Township of Pentwater. Revenues are derived primarily from property taxes, state distributions and interest on investments.

The Library Fund accounts for the financing and operating of the Pentwater Township Library.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**C. Measurement Focus, Basis of Accounting, and Financial Statements - Concluded**

The Cemetery Fund accounts for the financing and operating of the Pentwater Township Cemetery. All financial decisions concerning the Cemetery Fund are approved by the Township.

The Capital Fund is used to account for the financial resources to be provided for the possible future expansion of the library facilities.

In addition to the General Fund, the Township of Pentwater reports the following fund types:

Fiduciary Funds are used to account for assets held by a governmental unit as the trustee or agent for others. The Tax Account is the only fiduciary fund of the Township.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township of Pentwater has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the tax fund.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Township has no proprietary funds.

When both restricted and unrestricted resources are available for use, it is the Township of Pentwater's policy to use restricted resources first. Unrestricted resources are used as they are needed.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

D. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Township of Pentwater as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives is not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against operations in the government-wide statements. Accumulated depreciation is reported in the government-wide statement of net assets.

The straight-line depreciation method is applied over the estimated useful life of all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	20 years
Buildings and improvements	20 years
Office equipment	8 years
Software and computers	5 years
Furniture and fixtures	15 years
Maintenance equipment	8 years
Library collections	10 years

E. Cash and Investments

The Township's cash is considered to be cash on hand, demand deposits, and non-negotiable certificates of deposit with an original maturity of 3 months or less.

All investments are stated at fair value.

F. Inventory of Supplies

Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase. As of March 31, 2006, the Township had no significant inventories on hand.

G. Budgets and Budgetary Accounting

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 31, the Township board reviews a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded**

G. Budgets and Budgetary Accounting - Concluded

2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
3. Prior to April 1 the budget is legally adopted.
4. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with U.S. generally accepted accounting principles.
5. Any revision to the budget must be approved by the Township Board.
6. Budgeted amounts are as originally adopted or amended by the Township Board during the year. Individual amendments were not material in relation to the original appropriations which were amended.
7. All annual appropriations lapse at year end.

H. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: **PROPERTY TAXES**

Pertinent tax dates are as follows:

Lien date	12/01/05
Levy date	12/01/05
Due date without penalty	02/14/06
Collection date	07/01/05 – 02/28/06

NOTE 3: **CASH AND INVESTMENTS**

The captions on the combined balance sheet relating to cash and investments are as follows:

Cash and cash equivalents	\$ 254,612
Investments	<u>219,195</u>
	<u>\$ 473,807</u>

A summary by type are:

Deposits	
Cash in demand accounts	\$ 17,965
Cash in savings accounts/ money market	236,292
Petty cash	355
Investments	
Certificates of deposit	<u>219,195</u>
	<u>\$ 473,807</u>

NOTE 3: **CASH AND INVESTMENTS – Concluded**

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. As of March 31, 2006, \$210,324 of the government's bank balance of \$480,290 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ <u>210,324</u>
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Investments

Act 196, P. A. 1997, authorizes the Township to deposit and invest in the following:

- (a) Bonds, securities and other direct obligations of the United States or its agencies.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depository of surplus money belonging to the State under section 5 or 6 of Act 105, P.A. 1855, as amended (MCL 21.145 and 21.146).
- (c) Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptance of United States banks.
- (f) Obligation of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Certain mutual funds as defined in the Act.

Investments of the Township are in accordance with statutory authority.

There are three levels of risk by which investments are classified. Category 1 includes investments that are insured or registered or for which the securities are held by the Township or its agent in the Township's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Township's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Township's name. At March 31, 2006, the Township's investments of \$219,195 were all classified in category 1.

The Township has adopted a formal investment policy, as required by Act 20, P.A. 1943 as amended, that complies with State law.

NOTE 4: **CAPITAL ASSETS**

A summary of changes in governmental capital assets including internal service fund assets is as follows:

	APRIL 1, 2005	ADDITIONS	DELETIONS	MARCH 31, 2006
Capital assets being depreciated				
Land improvements	\$ 80,911	\$ 62,400	\$	\$ 143,311
Building and improvements	363,145	11,492		374,637
Office equipment	125,430			125,430
Software and computers	54,239	33,959	7,933	80,265
Furniture and fixtures	70,719		150	70,569
Maintenance equipment	24,372			24,372
Library collections	<u>115,056</u>	<u>13,442</u>	<u>9,282</u>	<u>119,216</u>
Total Capital assets being depreciated	<u>833,872</u>	<u>121,293</u>	<u>17,365</u>	<u>937,800</u>
Less: Accumulated depreciation				
Land improvements	11,475	4,946		16,421
Building and improvements	68,645	9,723		78,368
Office equipment	34,757	15,679		50,436
Software and computers	33,616	14,063	6,466	41,213
Furniture and fixtures	40,299	4,268	150	44,417
Maintenance equipment	12,728	3,046		15,774
Library collections	<u>53,898</u>	<u>11,714</u>	<u>9,282</u>	<u>56,330</u>
Total Accumulated Depreciation	<u>255,418</u>	<u>63,439</u>	<u>15,898</u>	<u>302,959</u>
Net Capital assets being depreciated	578,454	57,854	1,467	634,841
Capital assets not being depreciated				
Construction in progress	<u>9,484</u>			<u>9,484</u>
NET CAPITAL ASSETS	\$ <u>587,938</u>	\$ <u>57,854</u>	\$ <u>1,467</u>	\$ <u>644,325</u>

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

GOVERNMENTAL ACTIVITY	AMOUNT
General government	\$ 35,803
Recreation and culture	<u>27,636</u>
	\$ <u>63,439</u>

NOTE 5: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

P.A. 621 of 1978 provides that local units of government shall not incur expenditures in excess of the amounts appropriated in the formal budget document adopted by the Township Board. P.A. 493 of 2003 removed debt service funds as funds requiring a budget. During the year ended March 31, 2006, Pentwater Township incurred expenditures in excess of appropriations as follows:

	BUDGET	ACTUAL	UNFAVORABLE VARIANCE
GENERAL FUND			
General government			
Township hall	\$ 118,233	\$ 124,821	\$ 6,588
Public safety			
Zoning and planning commission	7,811	7,856	45
Health and welfare			
Recreation fund	4,144	4,145	1
Public works			
Street lighting	440	442	2

NOTE 6: RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the Township to purchase commercial insurance for most risks of loss to which it is exposed.

NOTE 7: INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

FUND	INTERFUND RECEIVABLES	FUND	INTERFUND PAYABLES
General	\$ 199,114		
Cemetery	<u>47,477</u>		
	<u>\$ 246,591</u>	Tax Account	<u>\$ 246,591</u>

NOTE 8: FUND BALANCE DESIGNATIONS

Designations of unrestricted fund balances in governmental funds indicate the Township's tentative plans for use of financial resources in a future period.

NOTE 9: ENDOWMENT FUND

Under a Designated Fund Agreement between the George W. Hansen and Edna Mae Hansen Living Trust (donors) and the Community Foundation for Oceana County (Foundation), dated February 2, 2005, the George Wilbur and Edna Hansen Endowment Fund (Endowment Fund) was created. The Donors contributed \$100,000 to the Endowment Fund. The Designated Fund Agreement states that the Endowment Fund is to be held by the Foundation as its property and not as a trustee. The Designated Fund Agreement also stipulates that each year the income from the Endowment Fund, as determined in accordance with the Foundation's policies, shall be distributed 50% to the Pentwater Township Library and 50% to another charitable organization. The Designated Fund Agreement also stipulates that the Pentwater Township Library is to use any future income of the Endowment Fund and distributed by the Foundation, 50% for the purchase of books and 50% to purchase other educational materials in memory of George Wilbur and Edna Hansen. As the Endowment Fund is held by the Foundation as its property, no amount is included in the financial statements of the Township of Pentwater. No income was received by the Library Fund from the Foundation's Endowment Fund during the year ended March 31, 2006.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2006

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Taxes				
Taxes - 2005 levy	\$ 164,219	\$ 164,219	\$ 202,180	\$ 37,961
Trailer taxes	2,916	2,916	636	(2,280)
Payment in lieu of taxes	1,500	1,500	1,475	(25)
Penalties and interest			5,205	5,205
Total Taxes	<u>168,635</u>	<u>168,635</u>	<u>209,496</u>	<u>40,861</u>
State Grants				
Shared revenues	36,000	36,000	39,279	3,279
Liquor control	580	580	585	5
Total State Grants	<u>36,580</u>	<u>36,580</u>	<u>39,864</u>	<u>3,284</u>
Charges for Services				
PTAF and collection fees	49,735	49,735	20,806	(28,929)
Licenses and permits	1,400	1,400	1,788	388
Transfer station	6,000	6,000	3,462	(2,538)
Total Charges for Services	<u>57,135</u>	<u>57,135</u>	<u>26,056</u>	<u>(31,079)</u>
Other Revenue				
Interest	3,000	3,000	8,411	5,411
Franchise fees	7,800	7,800	8,461	661
Miscellaneous	2,050	2,050	2,558	508
Total Other Revenue	<u>12,850</u>	<u>12,850</u>	<u>19,430</u>	<u>6,580</u>
TOTAL REVENUES	<u>275,200</u>	<u>275,200</u>	<u>294,846</u>	<u>19,646</u>
EXPENDITURES				
LEGISLATIVE				
Township Board				
Township Board trustee wages	2,739	2,789	2,789	
Township Board trustee fringes	210	210	118	92
TOTAL LEGISLATIVE	<u>2,949</u>	<u>2,999</u>	<u>2,907</u>	<u>92</u>
GENERAL GOVERNMENT				
Supervisor				
Salaries and wages	11,000	11,000	11,000	
Fringe benefits	842	842	842	
Total Supervisor	<u>11,842</u>	<u>11,842</u>	<u>11,842</u>	

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - Continued
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
EXPENDITURES - Continued				
GENERAL GOVERNMENT - Concluded				
Election				
Election wages	\$ 6,500	\$ 392	\$ 358	\$ 34
Election travel	75			
Election education	200	125	125	
Miscellaneous	200		(482)	482
Total Election	<u>6,975</u>	<u>517</u>	<u>1</u>	<u>516</u>
Assessor				
Salaries and wages	<u>34,949</u>	<u>36,000</u>	<u>36,000</u>	
Clerk				
Salaries and wages	37,973	36,258	36,258	
Fringe benefits	<u>2,905</u>	<u>2,905</u>	<u>2,749</u>	<u>156</u>
Total Clerk	<u>40,878</u>	<u>39,163</u>	<u>39,007</u>	<u>156</u>
Board of Review				
Salaries and wages	1,364	1,865	1,865	
Fringe benefits	<u>104</u>	<u>143</u>	<u>143</u>	
Total Board of Review	<u>1,468</u>	<u>2,008</u>	<u>2,008</u>	
Treasurer				
Salaries and wages	24,509	25,605	25,605	
Fringe benefits	<u>1,779</u>	<u>1,959</u>	<u>1,959</u>	
Total Treasurer	<u>26,288</u>	<u>27,564</u>	<u>27,564</u>	
Township Hall				
Supplies	5,500	3,912	3,966	(54)
Professional services	20,000	37,508	36,198	1,310
Drain assessments	4,200	3,942	3,942	
Dues and subscriptions	2,500	2,348	2,348	
Insurance and bonds	5,000	5,615	5,448	167
Printing and publishing	4,000	3,200	2,581	619
Utilities and telephone	4,000	3,500	3,169	331
Repairs and maintenance	12,700	11,582	12,482	(900)
Capital outlay	43,687	42,628	50,689	(8,061)
Travel	1,000	850	850	
Education and training	1,500	1,886	1,886	
Miscellaneous	<u>750</u>	<u>1,262</u>	<u>1,262</u>	
Total Township Hall	<u>104,837</u>	<u>118,233</u>	<u>124,821</u>	<u>(6,588)</u>
TOTAL GENERAL GOVERNMENT	<u>227,237</u>	<u>235,327</u>	<u>241,243</u>	<u>(5,916)</u>

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - Continued
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGETED AMOUNTS</u>			VARIANCE FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
EXPENDITURES - Continued				
PUBLIC SAFETY				
Police - Liquor Control				
Salaries and wages	\$ 580	\$ 580	\$ 580	\$
Fringe benefits	50	50	44	6
Total Police - Liquor Control	<u>630</u>	<u>630</u>	<u>624</u>	<u>6</u>
Charter Communications				
Professional services	<u>1,500</u>			
Zoning and Planning Commission				
Salaries and wages	7,256	7,256	7,301	(45)
Fringe benefits	<u>555</u>	<u>555</u>	<u>555</u>	
Total Zoning and Planning Commission	<u>7,811</u>	<u>7,811</u>	<u>7,856</u>	<u>(45)</u>
Assessor Plat				
Salaries and wages	2,300	2,274	2,274	
Fringe benefits	<u>175</u>	<u>10</u>	<u>10</u>	
Total Assessor Plat	<u>2,475</u>	<u>2,284</u>	<u>2,284</u>	
TOTAL PUBLIC SAFETY	<u>12,416</u>	<u>10,725</u>	<u>10,764</u>	<u>(39)</u>
PUBLIC WORKS				
Street Lighting	<u>500</u>	<u>440</u>	<u>442</u>	<u>(2)</u>
Highway, Streets and Bridges				
Repairs and maintenance	2,500	3,495	1,845	1,650
Capital outlay	<u>5,000</u>	<u>8,000</u>	<u>8,000</u>	
Total Highway, Streets and Bridges	<u>7,500</u>	<u>11,495</u>	<u>9,845</u>	<u>1,650</u>
Sanitation				
Salaries and wages	5,200	4,000	4,000	
Fringe benefits	398	367	367	
Repairs and maintenance	1,000	2,670	2,670	
Landfill rental	<u>10,000</u>	<u>9,068</u>	<u>8,676</u>	<u>392</u>
Total Sanitation	<u>16,598</u>	<u>16,105</u>	<u>15,713</u>	<u>392</u>
TOTAL PUBLIC WORKS	<u>24,598</u>	<u>28,040</u>	<u>26,000</u>	<u>2,040</u>

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - Concluded
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGETED AMOUNTS</u>			VARIANCE FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>	ACTUAL	
EXPENDITURES - Concluded				
HEALTH AND WELFARE				
Recreation fund				
Repairs and maintenance	\$ 6,000	\$ 4,144	\$ 4,145	\$ (1)
Capital outlay	<u>2,000</u>	<u></u>	<u></u>	<u></u>
TOTAL HEALTH AND WELFARE	<u>8,000</u>	<u>4,144</u>	<u>4,145</u>	<u>(1)</u>
 TOTAL EXPENDITURES	 <u>275,200</u>	 <u>281,235</u>	 <u>285,059</u>	 <u>(3,824)</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		(6,035)	9,787	15,822
 FUND BALANCE, APRIL 1	 <u>318,469</u>	 <u>318,469</u>	 <u>318,469</u>	 <u></u>
FUND BALANCE, MARCH 31	<u>\$ 318,469</u>	<u>\$ 312,434</u>	<u>\$ 328,256</u>	<u>\$ 15,822</u>

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CEMETERY FUND
FOR THE YEAR ENDED MARCH 31, 2006

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Taxes	\$ 47,835	\$ 47,835	\$ 50,355	\$ 2,520
Charges for services	1,300	1,300	1,227	(73)
Sales	4,000	4,000	5,470	1,470
Interest	600	600	1,214	614
TOTAL REVENUES	<u>53,735</u>	<u>53,735</u>	<u>58,266</u>	<u>4,531</u>
EXPENDITURES				
Committee member	1,250	1,250	1,250	
Salaries and wages	12,000	10,255	9,520	735
Fringes	1,000	718	1,450	(732)
Supplies	1,500	692	691	1
Professional services	600	4,377	4,377	
Dues and subscriptions	60			
Insurance and bonds	1,250	1,213	1,212	1
Printing and publishing	200			
Utilities	1,200	1,471	1,375	96
Repairs and maintenance	15,000	15,837	15,837	
Capital outlay	19,075	63,268	63,268	
Transportation and travel		143	143	
Education and training	100	253	253	
Miscellaneous	500	202	202	
TOTAL EXPENDITURES	<u>53,735</u>	<u>99,679</u>	<u>99,578</u>	<u>101</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		(45,944)	(41,312)	4,632
FUND BALANCE, APRIL 1	<u>122,446</u>	<u>122,446</u>	<u>122,446</u>	
FUND BALANCE, MARCH 31	<u>\$ 122,446</u>	<u>\$ 76,502</u>	<u>\$ 81,134</u>	<u>\$ 4,632</u>

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LIBRARY FUND
FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGETED AMOUNTS</u>			VARIANCE FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES				
Taxes	\$ 124,535	\$ 131,335	\$ 129,837	\$ (1,498)
State grants	2,503	3,203	3,286	83
Private contributions	750	1,125	1,149	24
Fees and fines	18,824	19,324	19,724	400
Interest and other	500	2,050	2,442	392
TOTAL REVENUES	<u>147,112</u>	<u>157,037</u>	<u>156,438</u>	<u>(599)</u>
EXPENDITURES				
Salaries and fringe benefits	79,800	79,800	78,145	1,655
Library materials	17,730	17,730	16,698	1,032
Office supplies and postage	4,075	4,075	3,607	468
Contract and professional services	5,995	7,795	7,594	201
Computer expense	4,100	5,500	5,487	13
Communications	3,100	3,200	3,128	72
Utilities and maintenance	7,950	9,200	8,339	861
Insurance	3,300	2,900	2,853	47
Capital outlay	5,000	5,000	3,863	1,137
Miscellaneous	1,000	1,000	743	257
TOTAL EXPENDITURES	<u>132,050</u>	<u>136,200</u>	<u>130,457</u>	<u>5,743</u>
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	15,062	20,837	25,981	5,144
OTHER FINANCING USES				
Transfers out	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	62	5,837	10,981	5,144
FUND BALANCE, APRIL 1	<u>118,903</u>	<u>118,903</u>	<u>118,903</u>	
FUND BALANCE, MARCH 31	<u>\$ 118,965</u>	<u>\$ 124,740</u>	<u>\$ 129,884</u>	<u>\$ 5,144</u>



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Pentwater Township Board
Township of Pentwater
Pentwater, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Pentwater, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Township of Pentwater, Michigan's basic financial statements and have issued our report thereon dated July 11, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Pentwater, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Pentwater, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to the management of the Township of Pentwater, Michigan, in a separate letter dated July 11, 2006.

This report is intended solely for the information and use of management, the Township Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton + Richardson PC
Certified Public Accountants

East Lansing, Michigan
July 11, 2006



Layton & Richardson, P.C.

Certified Public Accountants

LETTER OF COMMENTS AND RECOMMENDATIONS

Pentwater Township Board
Township of Pentwater
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We have audited the financial statements of the TOWNSHIP OF PENTWATER, MICHIGAN, for the year ended March 31, 2006, and have issued our report thereon dated July 11, 2006. As part of the audit process, we tested and evaluated the system of internal accounting controls and the procedures used to record the financial transactions of the Township of Pentwater, Michigan. These tests and evaluations are important to the audit process because they serve as the basis for our opinion on the reliability and accuracy of the financial statements.

Although we did not observe any material errors or weaknesses in accounting or financial management, the following recommendations are intended to improve the efficiency and effectiveness of control procedures:

PRIOR YEAR RECOMMENDATIONS

Cash Disbursements

Before invoices are paid they should be initialed by either the Clerk, Deputy Clerk or the Treasurer. This procedure is essential for a proper review of the Townships invoices. **This has been implemented.**

Budgets

The budget should be amended at least four times a year with the final amendments made during the March meeting preceding the year end. **This has been implemented.**

Documentation of Budget Approval

We noted that copies of the budgets approved by the board were not included as attachments to the board minutes. We recommend that all budget approvals and amendments be fully detailed in the board minutes. **This has been implemented.**

PRIOR YEAR RECOMMENDATIONS - Concluded

Segregation of Duties

The Treasurer and Clerk are authorized signers on bank accounts. Additionally, the Deputy Treasurer and Deputy Clerk are authorized signers in the absence of the Treasurer and Clerk, respectively. The Treasurer, Clerk and their Deputies all process cash receipts. The Treasurer and Clerk reconcile the monthly bank statements with their accounting records.

Strong internal controls call for segregation of duties, with the intent of limiting the responsibilities any one individual may have over the entire recording process of transactions. Segregation of duties is difficult to accomplish when the number of staff members is small. In light of this, we recommend that the Township Supervisor receive the bank statements directly from the bank, and review them four times per year. The Supervisor should request the bank statements for review at random. The Supervisor should examine the bank statements and all documents returned with the statements for any unusual items, and ask to see supporting documentation for anything questionable. The Supervisor should initial and date the bank statements upon being satisfied that all items are appropriate. This periodic review will provide improved internal controls over the cash disbursement and receipts of the Township. **This has been implemented, however, we did not observe the Supervisors' initials and date documenting implementation.**

Cash Disbursements – General Fund

Supporting Documentation

We noted instances of payment for routine maintenance services with no supporting documentation in the form of a written service agreement or invoices. We recommend that verbal agreements be put into writing and be signed by the Township and the vendor. Further, we recommend that supporting documentation be required for all vendor disbursements. This documentation can be in the form of a vendor invoice, memo or check request indicating purpose of disbursement, payee and date(s) of services. **This has not been implemented.**

CURRENT YEAR RECOMMENDATIONS

Payroll

During our testing of payroll transactions, we noted not all W-4 forms are current. We recommend that the Township provide employees with W-4 forms and ask them to complete and return to the Township. This should be done every three years to strengthen internal controls and help assure accurate withholdings are calculated on employee payroll checks.

Cash Disbursements

We noted instances during our testing of cash disbursements, where the supporting documentation was not retained. Good internal controls require that appropriate, approved supporting documentation be required for all cash disbursements, and that this documentation be retained to allow subsequent verification as to the accuracy of the expenditure.

We are grateful to the officials and employees of Pentwater Township for the assistance and cooperation which we received during the audit, and we thank them.

Layton + Richardson PC
Certified Public Accountants

East Lansing, Michigan
July 11, 2006